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The Unearned Increment.

(REVISED AUGUST 1895.)

What is Meant by It.

THE Unearned Increment from land is the amount added to its selling value by the mere increase of the community in population and productive power. Thus John Stuart Mill said :

"The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were, in their sleep, without working, risking or economizing. What claim have they, on the general principle of social justice, to this accession of riches?"—*Principles of Political Economy*. Book v. Chapter ii. § 5 (p. 492 of 1865 Edition).

And Professor Thorold Rogers added :

"Every permanent improvement of the soil, every railway and road, every bettering of the general condition of society, every facility given for production, every stimulus supplied to consumption, *raises rent*. The landowner sleeps, but thrives. He alone, among all the recipients in the distribution of products, owes everything to the labor of others, contributes nothing of his own. He inherits part of the fruits of present industry, and has appropriated the lion's share of accumulated intelligence."—*Political Economy*. Ch. xii.

How to Calculate It.

We must distinguish between the value added to land merely by the increase in population, and that due to artificial improvements. The latter, in a sense, is not "unearned" increment, from the point of view of the community, because it is caused directly by the labor of those who have worked on the land. But even this may be really "unearned" as regards the landlord, if he has himself contributed no labor in return.

The annual rental value of the metropolitan area in 1895 was over £41,000,000, representing a saleable value, if only fifteen years' purchase be taken, of £615,000,000. In 1870 the annual rental was about £22,000,000, equal to a saleable value of £330,000,000. The total increment during those twenty-one years was, therefore, over nineteen millions a year rent, representing a growth in saleable value of no less than £285,000,000. A large part of this increased value was, however, caused by expenditure on new buildings. The suburban districts have been filling up; and the central districts have been extensively rebuilt. Fortunately the annual revision of the valuation list enables us to distinguish between new buildings (together with any structural alterations to old ones) and the rise in rent of unaltered land and buildings. We are thus able to ascertain separately, from official figures, the annual growth from this cause in all years except those of the quinquennial revaluation. As those periods have no influence on the building trades, it is fair to assume that the average of the other years applies also to them; and thus we have the total

growth in rental caused by building operations very accurately ascertained. Errors of valuation no doubt occur; but these may be assumed to balance each other; and no one can pretend that London is, on the whole, even now over-assessed. Any additional growth must have been due to intensified demand for existing buildings, caused by increasing population, by the advance of London as an industrial centre, and by the helpless condition of the London poor. All landlords do not benefit equally, and the increase is, moreover, divided between freeholders, copyholders, leaseholders, tenants in "beneficial occupation" and other varieties of the landlord class; but from the point of view of the community at large this annual net increase is a real "unearned increment." How much it amounts to, the table given below, compiled from official figures, will show.

The Unearned Increment.

Table showing the Gross Valuation of the Metropolis from 1870 to 1894, as amended on appeal, with the increase each year, distinguishing between that caused by New Buildings and that due to Rise in Value. Compiled from Local Government Board Report for 1881, c—2982, and from the Statutory Lists of Totals issued by the Clerk to the Metropolitan Asylums Board, from 1871 to 1889, and by the Clerk of the London County Council, from 1890 to 1895.

On 6th April.	Gross Valuation.	Total Increase. (Annual Rental.)	Increase due to new buildings (annual rental).	"Unearned Increment" of annual rental.
	£	£	£	£
1870	22,142,706	.....	.....	.....
1871	24,298,786	2,156,080	400,000 (a)	1,756,080
1872	24,655,235	356,449	356,449	.....
1873	24,997,718	342,483	342,483	.....
1874	25,414,094	416,376	416,376	.....
1875	25,915,723	501,629	501,629	.....
1876	28,208,898	2,293,175	461,899 (a)	1,831,276
1877	28,631,066	422,168	422,168	.....
1878	29,204,432	573,366	573,366	.....
1879	29,854,950	650,518	650,518	.....
1880	30,600,499	745,549	745,549	.....
1881	33,517,946	2,917,447	665,955 (a)	2,251,492
1882	34,104,308	586,362	586,362	.....
1883	34,786,360	682,052	682,052	.....
1884	35,411,224	624,864	624,864	.....
1885	36,020,008	608,784	608,784	.....
1886	37,398,593	1,378,585	496,021 (a)	882,564
1887	37,781,851	383,258	383,258	.....
1888	38,120,877	339,026	339,026	.....
1889	38,444,697	323,820	323,820	.....
1890	38,687,247	242,550	242,550	.....
1891	40,028,338	1,341,091	280,167 (a)	1,060,924
1892	40,346,121	317,783	317,783	.....
1893	40,653,553	307,432	307,432	.....
1894	41,032,938	379,385	379,385	.....
1895	41,427,670	394,732	394,732	.....
Total.....		19,284,964	11,502,628	7,782,336

(a) Estimated at the mean of the year preceding and the year succeeding the quinquennial year.

What it Amounts to.

The total "unearned increment" during this period is thus seen to have been £7,782,336 in annual rental, representing a saleable value of over

ONE HUNDRED AND SIXTEEN MILLIONS STERLING.

It amounts to over one-sixth of the total saleable value of London. This is what we have deliberately allowed the London landlords to receive, over and above their former annual tribute, during the short space of twenty-five years. This is the princely gift of the London worker to the London landlord. And it still goes on. Although now less than before in the centre of London, it is larger than ever in the suburbs.

What We Might Have Done With It.

Let us see what we might have done with it if we had listened to the political economists, who warned us that it would happen. If the existing land tax of four shillings in the pound had, in 1870, been levied on the landlord at the current valuation (instead of upon that of 1692) it would hardly have deprived him of any of his then income; his total payments would have been only slightly in excess of the unearned increase brought to him by London's growth. During the last twenty-five years about £116,000,000 has been levied in London by rates. If the landlord had been compelled to pay every farthing of these rates (in addition to anything he may now indirectly bear) he would be as well off now as he was twenty-five years ago.

What We Might Now Do With It.

The average rise of London valuation (on unimproved buildings) is seen to have been about one per cent. on the average valuation. Even allowing for increased accuracy in assessment, this annual rise in rent represents an annual addition to the saleable value of the property of about £4,000,000. This is our annual "New Year's Gift" (in addition to the £41,000,000 annual tribute of rent) to those who do us the favor to own London. The total rates levied annually amount now to over £8,000,000, and must inevitably increase with the growth of social compunction, and the extension of corporate activity. Would it be anything but bare justice to absorb, in order to meet this deficit, the whole of the £4,000,000 annually added to the value of London? If, to begin with, the burden were divided between owner and tenant, the resulting landlord's rate of half-a-crown in the pound on the "rateable value" would realize about this amount. It should be deductible from the rent in the manner in which the "property tax" (Income Tax, Schedule A) is now deducted, "any agreement to the contrary notwithstanding."

London's Ground Rent.

One suggestion may be added. If £19,284,964, the total increase in London's rental value during twenty-five years of enormous building operations, is divided so that £11,502,628 is due to them and £7,782,336 to "unearned increment," we may hypothetically infer that a similar proportion holds good of the total rental value.

In that case, out of the annual rental of £41,000,000, we may estimate that £25,000,000 is for buildings, and some

£16,000,000 FOR GROUND RENT ONLY.

This amount, which comes to about eight shillings per week per family, is what we pay for permission to use the low hills and marshes by the Thames on which London is built. How much were these worth before London grew there?

A "Municipal Death Duty" of only ten per cent. upon the value of the real estate in London, whenever transferred by death, would yield over *three millions* a year; or nearly enough to pay all the expenses of the London School Board and County Council put together without the need of any rates at all for these authorities.

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